## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE SAN FRANCISCO, CA 94102-3298



June 21, 2005

Agenda ID #4718 Ratesetting

TO: PARTIES OF RECORD IN APPLICATION 03-08-004

This is the draft decision of Administrative Law Judge (ALJ) Wong. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the draft decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the draft decision as provided in Article 19 of the Commission's "Rules of Practice and Procedure." These rules are accessible on the Commission's website at http://www.cpuc.ca.gov. Pursuant to Rule 77.3 opening comments shall not exceed 15 pages. Finally, comments must be served separately on the ALJ and the assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious method of service.

<u>/S/ ANGELA K. MINKIN</u> Angela K. Minkin, Chief Administrative Law Judge

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Attachment

Decision **DRAFT DECISION OF ALJ WONG** (Mailed June 21, 2005)

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Adoption of its 2004 Energy Resource Recovery Account (ERRA) Forecast Revenue Requirement, for Review of Contract Administration, Least Cost Dispatch and Procurement Activities during the Record Period January 1, 2003, Through May 31, 2003, and for Approval of its 2004 Ongoing Competition Transition Charges (CTC) Revenue Requirement and Proposed Rate Design. (U 39 E)

Application 03-08-004 (Filed August 1, 2003)

# OPINION REGARDING THE JUNE 1, 2003 THROUGH DECEMBER 31, 2003 REVIEW RECORD

# I. Summary

In an April 16, 2004 Administrative Law Judge's (ALJ) ruling, we granted the March 17, 2004 motion of Pacific Gas and Electric Company (PG&E) to have the activities related to its Energy Resource Recovery Account (ERRA) for the seven-month period of June 1, 2003 through December 31, 2003 reviewed in this proceeding.

This decision addresses PG&E's ERRA activities during the seven-month record review period. The decision finds that PG&E's activities concerning its contract administration, procurement activities, generation fuel costs, and least cost dispatch were in compliance with PG&E's 2003 updated procurement plan and related decisions. In addition, the decision concludes that PG&E is entitled

to recover the costs associated with these activities to the extent existing rates do not fully recover these costs.

# II. Background

In Decision (D.) 02-10-062, the Commission established the ERRA balancing account to recover PG&E's energy procurement plan power costs.<sup>1</sup> The ERRA records the authorized ERRA revenue requirement and actual power costs to determine PG&E's recovery of its power costs, excluding the costs associated with the California Department of Water Resources (DWR) power contracts.<sup>2</sup>

In D.03-10-059, the decision addressing PG&E's forecast of its 2003 ERRA revenue requirement, we approved a stipulation between PG&E and the Office of Ratepayer Advocates (ORA) that allowed PG&E to include its 2004 ERRA forecast and its ERRA reasonableness showing for the first five months of 2003 in its August 1, 2003 ERRA filing. PG&E filed the above-captioned application on August 1, 2003.<sup>3</sup> In D.04-06-012 and D.05-01-031, we addressed PG&E's 2004 ERRA and Competition Transition Charge revenue requirements. The review of PG&E's ERRA for the first five months of 2003 was addressed in D.05-04-036.

A prehearing conference was held on May 3, 2004 to discuss, among other things, the procedural schedule for the seven-month record review period. In

<sup>&</sup>lt;sup>1</sup> D.02-10-062 was modified in part by D.02-12-074.

<sup>&</sup>lt;sup>2</sup> The Operating Agreement between PG&E and DWR, which was approved in D.03-04-029, governs how PG&E is to manage the DWR contracts allocated to PG&E, and how PG&E is to be reimbursed by DWR for the administration of the allocated contracts.

<sup>&</sup>lt;sup>3</sup> Pursuant to D.03-07-030, PG&E's application also included its calculation of the 2004 ongoing Competition Transition Charge.

A.03-08-004 ALJ/JSW/eap DRAFT

the June 18, 2004 updated scoping memo and ruling, the issue of "whether PG&E's contract administration, generation resource dispatch, and procurement activities for June 1, 2003 through December 31, 2003 should be approved" was added to the scope of issues to be resolved in this proceeding. The June 18, 2004 ruling established the dates for the submission of testimony and the evidentiary hearings.

PG&E served its prepared testimony and rebuttal testimony on July 1, 2004 and October 1, 2004, respectively. ORA served its testimony on September 10, 2004.

Evidentiary hearings were scheduled to begin October 25, 2004. On October 18, 2004, PG&E notified the assigned ALJ and the service list that ORA and PG&E had agreed that evidentiary hearings were no longer needed because they had "resolved the outstanding process issues between them...." PG&E's notification also stated that it had agreed to provide certain information to ORA in future ERRA applications, and to maintain certain other information. PG&E also stated in the notification that "With these agreements, there are no outstanding issues in this proceeding, and the June 1 – December 31, 2003 record period can be closed." (October 20, 2004 ALJ Ruling, p. 2.) In an October 20, 2004 ALJ ruling, the evidentiary hearings into the seven-month record period were removed from the hearing calendar, and the testimony submitted by PG&E and ORA was identified and admitted into evidence.

The testimony on the seven-month record review period is composed of PG&E's redacted and unredacted testimony dated July 1, 2004, ORA's redacted and unredacted testimony dated September 10, 2004, PG&E's rebuttal testimony dated October 1, 2004, and PG&E's Appendix 5-1. These six pieces of testimony were received into evidence in the October 20, 2004 ruling as Exhibits 106 to 111, respectively. Exhibits 107, 109 and 111 were placed under seal.

Since the parties agreed that the issues regarding the seven-month record period could be closed, no briefs were filed.

## III. Position of the Parties

## A. PG&E

## 1. Background

PG&E's testimony regarding the seven-month record period consists of Exhibits 106, 107, 110, and 111. Exhibit 107 is the sealed, unredacted version of Exhibit 106. Exhibits 106 and 107 describe PG&E's 2003 procurement plan, least cost dispatch process, contract administration, procurement activities, and generation fuel costs for the seven-month record period.<sup>4</sup> Exhibit 110 is PG&E's rebuttal testimony to ORA's testimony. Exhibit 111, which has been sealed, reflects PG&E's procurement purchase and sale transactions during the seven-month record period.

PG&E asserts that its exhibits demonstrate "that PG&E's contract administration, dispatch of generation resources and procurement activities complied with PG&E's Commission-approved 2003 Short-Term Procurement Plan ..., and the requirements set forth in the ... CPUC ... procurement-related

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<sup>&</sup>lt;sup>4</sup> In a letter dated January 24, 2005, PG&E notified the ALJ and the service list that there were inadvertent mistakes in Tables 4-1, 4-4 and 4-6 of Exhibit 107, which has been received into evidence under seal. PG&E states that the correct data was included in PG&E's Procurement Transaction Quarterly Compliance filings for the fourth quarter of 2003 and the first quarter of 2004 in two advice letters. PG&E transmitted copies of its "Errata to Tables 4-1, 4-4 and 4-6" to the ALJ and to ORA. PG&E requests that because of the confidential nature of the information, the errata be entered into the record under seal as a replacement for those three tables in Exhibit 107. No one objected to PG&E's request. PG&E's "Errata to Tables 4-1, 4-4 and 4-6" shall be identified as Exhibit 112 and received into evidence under seal.

decisions, and therefore, should be found in compliance with the approved procurement plan." (Exhibits 106 and 107, p. 1-1.)

# 2. Contract Administration

The contracts that PG&E administered during the seven-month record period were the allocated DWR contracts, qualifying facility (QF) contracts, other power purchase agreements, and new purchase contracts. Chapter 3 of Exhibits 106 and 107 discussed PG&E's administration of these contracts, and the processes that it utilized to fulfill its contract administration responsibilities.

Pursuant to the Operating Agreement between PG&E and DWR, which was approved in D.03-04-029, PG&E performs certain administrative functions with respect to the DWR contracts allocated to it. These functions include day-to-day scheduling and dispatch, managing fuel procurement, billing and settlements, and surplus power sales. To administer the allocated DWR contracts, PG&E formed a DWR contract administration function within its Gas and Electric Supply Department.

PG&E's testimony in Chapter 3 of Exhibits 106 and 107 includes a description of how it addressed ORA's concerns about PG&E's contract administration. ORA's concerns were originally set forth in ORA's April 9, 2004 report for the five-month record period (Exhibits 102 and 103), responded to by PG&E in Exhibit 105, and addressed in large part in D.05-04-036 at pages 38-39, and 45-47. PG&E's testimony also notes that after the seven-month record period ended, it began to use the Enviance Task Management System (Enviance system) to track the administration of the DWR allocated contracts.

PG&E states in its rebuttal testimony (Exhibit 110) that during the record period, none of the non-QF contracts had issues that rose to the level of contract

disputes. For that reason, PG&E contends that there is no need to create a dispute resolution logbook for the record period as recommended by ORA.

PG&E's rebuttal testimony also states that it is willing to document formal contract disputes as ORA has recommended, and that it will work with ORA before the next ERRA review to come to a common understanding of what constitutes a contract dispute, and to standardize the dispute documentation for QF and non-QF contracts. In addition, PG&E states that it will provide the QF information that ORA recommends be provided in future ERRA filings.

Regarding the changes to the Enviance system that ORA recommends, PG&E states in its rebuttal testimony that it will work with ORA to address to address its concerns.

As for ORA's recommendations regarding least cost dispatch, PG&E states in its rebuttal testimony that it will provide the hourly load forecasts that ORA requests be provided, and that PG&E will submit information in its next ERRA review about the steps it has taken to correct the over-forecasting of hydro generation in PG&E's hydro optimization model.

With respect to ORA's recommendation that PG&E establish a separate section of its staff to perform short-term load forecasting, PG&E's rebuttal testimony explained that the short-term load forecasting is prepared by the Strategic Consulting section of the Gas and Electric Supply Department. During the seven-month record period, the long-term load forecast, which was prepared by the Regulatory Analysis Department, was used to support the mid-term load forecasting. However, starting in May 2004, the Portfolio Optimization group of the Gas and Electric Supply Department began to produce the mid-term load forecasts. PG&E states that having the two forecasts supported by two separate groups is an effective use of personnel.

PG&E's rebuttal testimony also responded to ORA's recommendation that PG&E supply information about its monthly sales and purchases. PG&E's rebuttal testimony states that it notified ORA's consultant that all of the information that ORA had requested had been supplied in Chapter 4 of Exhibits 106 and 107, and that the information was also provided in PG&E's Procurement Transaction Quarterly Compliance filings, which were included as workpapers to the ERRA filing. Exhibit 111, which was submitted under seal, contains additional information that ORA's consultant had requested.

Based on PG&E's description of its contract administration during the seven-month record period, as contained in Exhibits 106 and 107, PG&E requests that the Commission find that:

"PG&E prudently administered its existing Qualifying Facility (QF) and other Power Purchase Agreement (PPA) contracts and fuel procurement to the benefit of its ratepayers.

"PG&E prudently administered the DWR contracts." (Exhibits 106 and 107, p. ES-2.)

#### 3. Procurement Activities

Chapter 4 of Exhibits 106 and 107 describes the procurement activities that PG&E undertook during the seven-month record period to meets its customers' electric energy requirements and to manage its net open position. As described in PG&E's 2003 procurement plan, "the objectives of PG&E's electric procurement process are to ensure sufficient energy supply, reduce customer risk and maintain price stability at reasonable prices." (Exhibits 106 and 107, p. 4-1.)

PG&E's procurement methods included using requests for offers, bilateral contracting agreements, exchange market transactions, and the Independent System Operator markets for energy and ancillary services. PG&E also

participated in transactions to reduce potential transmission congestion penalty risks and to maximize the value of ratepayer assets. PG&E contends that all of these procurement activities were based on least-cost analyses, and that the activities were performed in a manner consistent with all Commission decisions relating to procurement.

PG&E's procurement transactions were reported to the Commission's Energy Division on a quarterly basis in the Procurement Transaction Quarterly Compliance advice letter filings. The advice letter filings described the reasons for the transaction, the procurement process that was followed, the quantitative assessment of the need for the transaction, and the economic value of the transaction. For the transactions that PG&E engaged in from April 2003 through June 2003, PG&E filed electric Advice Letter 2402-E on July 15, 2003. For the transactions that took place from July 2003 through September 2003, PG&E filed electric Advice Letter 2434-E on October 30, 2003. For the transactions from October 2003 through December 2003, PG&E filed electric Advice Letter 2469-E-A on March 16, 2004.

PG&E contends that during the record period it procured electric energy resources and engaged in transactions that were in conformance with its 2003 procurement plan. PG&E used competitive energy markets whenever it was feasible, engaged in transactions that were designed to reduce costs to ratepayers, and provided detail and justification for all transactions in its quarterly electric advice letter filings.

## 4. Generation Fuel Costs

Chapter 5 of Exhibits 106 and 107 describes the actions that PG&E undertook to procure generation fuel for its retained generation plants, the allocated DWR contracts, hydroelectric, and Diablo Canyon Power Plant (DCPP).

PG&E contends that all of its actions were consistent with the Commissionapproved procurement plan and with Commission decisions addressing procurement.

Based on PG&E's discussion of its fuel costs in Chapter 5 of Exhibits 106 and 107, PG&E requests that the Commission find that PG&E's generation fuel costs were in compliance with the approved procurement plan during the sevenmenth record period.

# 5. Least Cost Dispatch

PG&E describes its least cost dispatch process in Chapter 2 of Exhibits 106 and 107. PG&E states that it adheres to the concept of "economic dispatch" to implement least cost dispatch. Economic dispatch "refers to the situation where the utility meets it operating requirements by dispatching resources with the lowest incremental cost." (Exhibits 106 and 107, p. 2-3.) PG&E's approach to least cost dispatch involves the dispatch of resources or the purchasing of energy with the lowest incremental cost of providing energy.<sup>5</sup> PG&E's least cost dispatch was applied to all of the resources within its portfolio, including PG&E's retained generation, existing bilateral contracts, the DWR allocated contracts, and market opportunities for energy purchases and sales.<sup>6</sup>

To carry out least cost dispatch, decisions are made using the best information that is available at the time. Load, weather, system conditions, and

<sup>&</sup>lt;sup>5</sup> The only exception to this least cost dispatch approach is with the dispatch of hydroelectric resources. PG&E states that hydro dispatch takes into consideration the future value of water and the fact that available water is limited. Because of this, it may be more prudent to defer hydro generation to higher value periods.

<sup>&</sup>lt;sup>6</sup> According to PG&E, no preference was made as between the resources of PG&E and the DWR allocated resources.

market prices are all factors which affect the dispatch decision. Hydro conditions and plant outages need to be considered in the planning process, and span multiple months and years. PG&E engages in "a series of ongoing analyses and activities that focus on different timeframes and decisions." (Exhibits 106 and 107, p. 2-9.) PG&E performs and updates its assessment of its net open position on a regular basis to determine whether additional resources are required or if it has excess resources for potential surplus sales. By performing updates, PG&E ensures that it has the resources to meet its requirements. The analyses and activities which PG&E undertakes are summarized in Attachment 2-1 of Exhibits 106 and 107 at pages 2-16 to 2-17.

PG&E's testimony notes that sometimes operational, physical, legal, regulatory, environmental, and safety constraints result in a departure from a pure economic dispatch of PG&E's resources. Due to these constraints, the dispatch decision involves more than just comparing the operating costs of various resources and market prices. PG&E developed an optimization process to dispatch resources based on their incremental costs, and which incorporates the resource constraints. This process is described at page 2-8 of Exhibits 106 and 107.

PG&E states that it has agreed to provide ORA with information that will facilitate ORA's review of PG&E's compliance with the Commission's least cost dispatch standards. (Exhibits 106 and 107, p. 2-1; D.05-04-036, pp. 44-47.)

PG&E asserts that its testimony in Exhibits 106 and 107 demonstrate that PG&E has complied with all of the least cost dispatch mandates described in D.02-10-062, D.02-12-069, D.02-12-074, and D.02-09-053. PG&E requests that the Commission find that:

"PG&E prudently administered all contracts and generation resources and dispatched energy in a least cost manner; "Consistent with the Commission's direction, PG&E's economic dispatch during the record period made no distinction between its own resources; contracted resources; market transactions (both purchases and sales) and DWR allocated contracts in its dispatch decisions; and

"All resources were dispatched based on their incremental costs, recognizing all operating constraints and all regulatory, environmental, and legal obligations." (Exhibits 106 and 107, p. 2-15.)

#### B. ORA

# 1. Background

ORA's testimony for the seven-month record period consists of Exhibits 108 and 109. Exhibits 108 and 109 are the redacted and unredacted September 10, 2004 "Report on Reasonableness Review" of PG&E's ERRA, respectively. ORA's report summarizes its review of the reasonableness of PG&E's contract administration of its QF and non-QF contracts, and PG&E's least cost dispatch during the record period.

#### 2. Contract Administration

## a) Non-QF Contract Administration

Chapter 2 of ORA's report reviewed PG&E's contract administration activities for its power purchase agreements, the allocated DWR contracts, and other miscellaneous contracts other than QF contracts for the seven-month record period. ORA states that it "reviewed and analyzed PG&E's contract administration activities including reconciling financial settlements, exercising options, negotiating amendments and checking for the completion of a variety of performance engineering tests." (Exhibits 108 and 109, p. 2-1.)

ORA's report recommends that the Commission find that PG&E's administration of its QF contracts to be incomplete. ORA recommends that this

proceeding not be closed "until further improvements are made in PG&E's contract administration, specifically PG&E's documentation of dispute resolutions." (Exhibits 108 and 109, p. 2-1.) ORA recommends that PG&E create a dispute resolution logbook to track the disputes, the resolution process, and the financial impacts.

ORA notes that PG&E purchased the Enviance system to replace PG&E's manual contract administration checklists. The purchase of the Enviance system occurred after the seven-month record period ended, and the system was purchased in part to address ORA's contract administration concerns. ORA states that the Enviance system "does address several of the issues which ORA put forth" regarding the five-month record period, and that the system "is an improvement over the previous manual checklist system." (Exhibits 108 and 109, p. 2-3.)

ORA states that the Enviance system could be modified to better suit PG&E's administration of its contracts. ORA believes that the Enviance system should provide more detailed information about upcoming tasks, scheduling progress, and extension of due dates. In addition, ORA recommends that the changing of a due date in the Enviance system should require management authorization.

# b) QF Contract Administration and Costs

Chapter 3 of Exhibits 108 and 109 addresses ORA's assessment of PG&E's contract administration and management of its power purchase contracts with QFs and the associated costs. During that period, PG&E purchased capacity and 11,625 gigawatt-hours (GWh) of energy from 307 QFs for a total cost of \$918.4 million.

ORA states that "Based on ORA's assessment and analysis of PG&E's representation in its ERRA report, workpapers, and data requests responses, it appears that PG&E has administered and managed its QF contracts reasonably." (Exhibits 108 and 109, p. 3-1.) ORA recommends that PG&E be allowed to recover its QF-related costs.

ORA also recommends that PG&E provide certain QF-related information in future ERRA filings as part of its workpapers. This information should include details about any QF amendments, modifications, and/or letter of agreements, settlement agreements regarding QF disputes, and operating and price information regarding the QFs. ORA states that the submission of this QF-related information will aid ORA in its review of PG&E's ERRA activities.

# 3. Least Cost Dispatch

Chapter 4 of Exhibits 108 and 109 addresses ORA's review of PG&E's activities relating to its least cost dispatch of utility-retained generation, the allocated DWR contracts, and power sales and purchases. ORA also met with PG&E personnel and reviewed the information contained in PG&E's application and in PG&E's responses to ORA's data requests. ORA is not recommending any disallowance regarding PG&E's least cost dispatch activities during the record period.

ORA recommends that PG&E provide certain additional information or change the manner in which PG&E performs certain tasks. ORA's first recommendation is for PG&E to modify its format of the Load and Resource Schedules to include information about when the schedules were prepared, the hourly load forecast, and how the schedule of resources is being modified to achieve a balance between hourly load and resources. ORA's second recommendation is for PG&E to consider establishing a section of its staff to take

care of short-term load forecasting, instead of the current method of using staff from several sections to perform this work. ORA's third recommendation is for PG&E to report on its efforts to modify its hydro optimization model to reduce the over forecasting of total hydro generation. ORA's fourth recommendation is for PG&E to "provide information on the monthly sales and purchases in the hour-ahead, the day-ahead, the balance of month, the monthly and the quarterly categories..." and the average monthly prices for each category of transactions. (Exhibits 108 and 109, p. 4-2.)

## IV. Discussion

## A. Background

The ERRA balancing account was established in D.02-10-062 to track actual recorded energy procurement costs against the authorized energy procurement costs in the revenue requirement. PG&E's 2003 ERRA revenue requirement of \$1.373 billion was adopted in D.03-10-059.

Today's decision is the second review of PG&E's ERRA activities since PG&E resumed procuring energy for its customers. As a result, ORA reviewed PG&E's ERRA activities for the record period of June 1, 2003 through December 31, 2003. ORA has not recommended any disallowances or findings of unreasonableness. ORA, however, recommended in its report that the proceeding not be closed "until further improvements are made in PG&E's contract administration, specifically PG&E's documentation of dispute resolutions." (Exhibits 108 and 109, p. 2-1.) ORA has also recommended that PG&E provide certain other information in future ERRA filings.

After PG&E and ORA submitted their prepared testimony, they agreed that they had resolved the outstanding process issues between them. PG&E also agreed to provide certain information to ORA in future ERRA applications, and

that the seven-month record period could be closed. With that understanding in mind, we address whether PG&E's contract administration, procurement, generation fuel costs, and least cost dispatch for the record period should be approved.

# B. Contract Administration, Procurement, and Generation Fuel Activities

PG&E's updated 2003 procurement plan, which contained PG&E's projected 2003 requirements, was approved by the Commission in D.02-12-074. The procurement plan discussed the timing and type of actions it anticipated undertaking to meet its requirements and to pursue least-cost transactions. The procurement plan also described PG&E's risk management and credit management activities. The procurement plan also allowed PG&E to adapt the plan as needed to respond to changes in its resource requirements and to changes in the energy market.

PG&E described its contract administration, procurement activities, generation fuel procurement, and least cost dispatch activities in its testimony. PG&E also met with ORA to discuss PG&E's activities during the record period. ORA undertook a review of PG&E's activities during the record period as described in its testimony. ORA has not recommended any disallowances or findings of unreasonableness for these activities.

With regard to PG&E's contract administration for energy resources other than qualifying facilities, ORA made several recommendations as to the type of information that PG&E should supply and how PG&E's management of the DWR contracts could be improved. Although ORA does not recommend any disallowance for administration of these contracts, ORA states at page 2-1 of Exhibits 106 and 107 that "the docket not be closed in this proceeding until

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further improvements are made in PG&E's contract administration, specifically PG&E's documentation of dispute resolutions."

For PG&E's contract administration of the QF contracts, ORA recommends approving PG&E's request for recovery of its QF-related costs, and that PG&E provide certain QF-related information in future ERRA filings.

We have reviewed and considered the testimony of both PG&E and ORA regarding the contract administration, procurement activities, and generation fuel procurement during the record period. PG&E's rebuttal testimony, which was submitted in response to ORA's recommendations regarding the additional information that ORA would like to see in future ERRA filings, states that PG&E is willing to work with ORA to supply the information that ORA has requested. We also stated in D.05-04-036 that PG&E had agreed to provide certain information in future ERRA filings as part of its response to ORA's master data request. In PG&E's October 18, 2004 notification to the assigned ALJ, PG&E stated that it would provide or maintain certain information as part of the ERRA review process, and that PG&E and ORA agreed that there were no other outstanding issues and the seven-month record period should be closed.

Based on ORA's review of PG&E's contract administration, procurement activities, and generation fuel procurement; our review of the testimony of both PG&E and ORA; no recommendations for disallowances or findings of unreasonableness; PG&E's willingness to provide or maintain certain information for future ERRA reviews; and the understanding between PG&E and ORA that there are no other outstanding issues, we find as follows for the period of June 1, 2003 through December 31, 2003:

1. PG&E reasonably administered its portfolio of the DWR contracts allocated to it in compliance with PG&E's 2003 procurement plan, and all costs incurred under such agreements are recoverable in rates.

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- 2. PG&E reasonably administered its QF contracts and other purchase power agreements in compliance with PG&E's 2003 procurement plan, and all costs incurred under such agreements are recoverable in rates.
- 3. PG&E's procurement of energy and energy transactions were in conformance with the 2003 procurement plan.
- 4. PG&E reasonably procured fuel for its retained generation facilities, and all of the associated costs are recoverable in rates.
- 5. PG&E reasonably managed the provisions of the DWR tolling agreements consistent with the applicable Operating Order, Operating Agreement, and/or Gas Supply Plan, and all of the associated costs are recoverable in rates.
- 6. PG&E reasonably acquired water for hydroelectric generation, and all of the associated costs are recoverable in rates.
- 7. PG&E reasonably procured nuclear fuel for DCPP, and all of the associated costs are recoverable in rates.

## C. Least Cost Dispatch

We turn next to whether PG&E dispatched the energy resources under its control in a least cost manner during the record period.

In D.05-04-036, which addressed the five-month ERRA review for this proceeding, we stated that "the same standard of review for least cost dispatch that we adopted in D.05-01-054 for SCE [Southern California Edison Company] should also apply to the standard of review of PG&E's least cost dispatch in its ERRA proceedings, i.e., a compliance review." (D.05-04-036, p. 27.) This compliance review means that "the utilities must use the most cost-effective mix of total resources, thereby minimizing the cost of delivering electric services." (D.05-04-036, p. 26; D.05-01-054, p. 14.) The utility "must demonstrate that it has complied with this standard, by providing sufficient information and/or analysis in order for the Commission to verify that [the utility's] dispatch resulted in the

most cost-effective mix of total resources, thereby minimizing the cost of delivering electric services." (*Ibid.*)

ORA and its consultant reviewed PG&E's least cost dispatch activities for the record period. ORA's consultant determined that PG&E did not deviate from the least cost dispatch principles. ORA recommends, as noted earlier, that PG&E provide certain additional information in future ERRA filings, and that PG&E should consider having a single unit within the Gas and Electric Supply Department perform the short-term load forecasting function.

In PG&E's rebuttal testimony and in the October 18, 2004 notification, PG&E agreed to provide most of the information that ORA requested. PG&E also explained in its rebuttal testimony why certain information was not needed, and how the short-term load forecasting is generated. Since the notification stated that PG&E and ORA had resolved the outstanding process issues between them, we assume that PG&E's willingness to supply certain information, and its explanation of other items that ORA had requested, is satisfactory to ORA.

Based on ORA's review of PG&E's least cost dispatch; ORA's sampling of data; our review of the testimony of both PG&E and ORA; and no recommendations for disallowances, we conclude as follows for the period of June 1, 2003 through December 31, 2003:

- 1. PG&E prudently administered all of its contracts and generation resources and dispatched energy in a least cost manner.
- 2. PG&E's economic dispatch decisions during the record period made no distinction between its own resources, contracted reserves, market transactions (both purchases and sales), and the DWR allocated contracts.
- 3. PG&E dispatched all resources based on their incremental costs, while recognizing all operating constraints and all regulatory, environmental and legal obligations.

# V. Categorization and Need for Hearings

In Resolution ALJ 176-3117 dated August 21, 2003, the Commission preliminarily categorized this application as ratesetting and preliminarily determined that hearings were not necessary. No protests have been received. Given this status, public hearing is not necessary and it is not necessary to alter the preliminary determinations made in Resolution ALJ 176-3117.

Since this decision resolves all of the remaining issues in this proceeding, this proceeding should be closed.

## VI. Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with §311(g)(1) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure. Comments to the draft decision may be filed in accordance with Rule 77.7.

# VII. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner, and John S. Wong is the assigned ALJ.

# **Findings of Fact**

- 1. The ERRA balancing account was established to record and recover the utilities' energy procurement plan power costs.
- 2. ORA's review of PG&E's ERRA activities for the seven-month record period did not recommend any disallowances or findings of unreasonableness.
- 3. The October 18, 2004 notification stated that ORA and PG&E had resolved the outstanding process issues between them, that PG&E agreed to provide or maintain certain information, and because there were no other outstanding issues the seven-month record period could be closed.
  - 4. PG&E's updated procurement plan for 2003 was approved in D.02-12-074.

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- 5. PG&E reasonably administered its portfolio of the allocated DWR contracts in compliance with PG&E's 2003 procurement plan.
- 6. PG&E reasonably administered its QF contracts and other purchase power agreements in compliance with PG&E's 2003 procurement plan.
- 7. PG&E's procurement of energy and energy transactions were in compliance with its 2003 procurement plan.
  - 8. PG&E reasonably procured fuel for its retained generation facilities.
- 9. PG&E reasonably managed the provisions of the DWR tolling agreements consistent with the applicable Operating Order, Operating Agreement, and/or Gas Supply Plan.
  - 10. PG&E reasonably acquired water for hydroelectric generation.
  - 11. PG&E reasonably procured fuel for DCNPP.
- 12. PG&E prudently administered all of its contracts and generation resources and dispatched energy in a least cost manner.
- 13. PG&E's economic dispatch decisions during the record period made no distinction between its own resources, contracted reserves, market transactions, and the DWR allocated contracts.
- 14. PG&E dispatched all resources based on their incremental costs, while recognizing all operating constraints and all regulatory, environmental and legal obligations.

#### **Conclusions of Law**

- 1. The January 24, 2005 "Errata to Tables 4-1, 4-4 and 4-6" shall be identified and received into evidence under seal as Exhibit 112.
- 2. PG&E should be allowed to recover in rates all of the costs that it incurred during the seven-month record period in connection with its contract administration, procurement activities, and generation fuel procurement.

# **DRAFT**

3. Since all of the remaining issues in this proceeding have been resolved, this proceeding should be closed.

## ORDER

## **IT IS ORDERED** that:

- 1. To the extent existing rates do not fully recover the costs associated with the Energy Resource Recovery Account (ERRA) activities discussed in this decision, Pacific Gas and Electric Company may adjust its ERRA rates to recover those costs.
  - 2. Application 03-08-004 is closed.This order is effective today.Dated \_\_\_\_\_\_\_, at San Francisco, California.